



Mendocino County Board of Supervisors
501 Low Gap Road
Ukiah, CA 95482

May 11, 2021

Re: Item 4a for 05/11/2021 - Direction to Staff to Begin Fully Assessing, Billing and Collecting Cannabis Business Tax, in the Current Calendar Year, to Initially Focus Expanded Application on Unlawful Cannabis Cultivation Sites that are Subject to Other Enforcement Action; Further to Direct Treasurer-Tax Collector, County Counsel and Code Enforcement to Provide a Report at the End of the Year with Recommendations (Sponsor: Supervisor Williams)

Honorable Supervisors,

[Chapter 6.32 - Cannabis Business Tax](#) outlines the County's tax procedures as they relate to local licensed cannabis businesses. For existing operators, there is currently a minimum tax based on the size of their cultivation site, which is imposed regardless of business revenue. As you all know farming is subject to the whim of the environment. With the ever-changing environmental conditions in Mendocino related to climate change, wildfires, occasional pest infestations and any number of other factors, we would like to take this opportunity to request once again that the minimum tax on cannabis cultivation permits be removed and replaced exclusively with a Gross Receipts tax. The fact that estimated Gross Receipts are being discussed for those outside of the program, but not being applied to those within it, points to what might be interpreted as a double standard that continues to unnecessarily burden Phase 1 and 2 operators.

As we have just entered a State of Emergency due to the historic drought within our community, it is very likely that many Phase 1 and 2 operators may need to reduce the size of their canopy this season, and in the future, as they adjust to available resources. Given this reality, we believe it is essential that those who voluntarily choose to reduce their canopy size be able to receive a reduction in their tax burden as well. Local cannabis businesses should be rewarded for taking actions that consider the well-being of the entire community, and not penalized financially if they are not utilizing their full allowable canopy in service of that greater well-being.

As you may or may not be aware, due to Federal tax law, compliant cannabis businesses are not allowed to write off basic business expenses that enable traditional businesses to retain more of their earnings. As such, every additional tax at the local level increases the burden to a business substantially. At this time, Phase 1 and 2 operators in the program who hold non-cultivation licenses are still required to pay quarterly portions of their annual \$2,500 Cannabis Business Taxes, even if the licenses are still in process at the State level and

therefore not engaging in business. As a comparison, the annual business license in Mendocino for a non-cannabis business is \$40 annually. The required payment for a tax on a non-operational license is excessively burdensome, and we request that this policy be changed so that non-operational, non-cultivation licensees are not being asked to pay a tax on activities that they are not undertaking. Additionally, the cost to appeal the minimum tax should come at no cost to the applicant or, at a minimum, align with that of other appeal fee schedules.

For the quarterly County Cultivation Tax fees, we again suggest basing them only on Gross Receipts, not a minimum based on permit size. Further, we recommend that a streamlined system be implemented which enables cultivators to update temporary canopy reductions which would automatically make corresponding adjustments to their required County Cultivation Tax without having to add to the workload of County Staff. This system would then also be utilized should the cultivator return to their fully permitted canopy.

We encourage you to take this opportunity to consider these items and to incorporate the appropriate changes to County policy.

Sincerely,

Mendocino Cannabis Alliance
e: admin@mendocannabis.com